

SANILAC INTERMEDIATE SCHOOL DISTRICT

Peck, Michigan

Report on Financial Statements

June 30, 2006

INDEPENDENT AUDITOR'S REPORT**MANAGEMENT'S DISCUSSION AND ANALYSIS****BASIC FINANCIAL STATEMENTS***Government-Wide Financial Statements*

Statement of Net Assets	1
-------------------------	---

Statement of Activities	2
-------------------------	---

Fund Financial Statements

Balance Sheet - Governmental Funds	3 & 4
------------------------------------	-------

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
--	---

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance	6 & 7
--	-------

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	8
---	---

Fiduciary Funds

Statement of Fiduciary Net Assets	9
-----------------------------------	---

Notes to the Financial Statements	10-21
-----------------------------------	-------

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund	22
--	----

Budgetary Comparison Schedule - Special Education Fund	23
--	----

Budgetary Comparison Schedule - Vocational Education Fund	24
---	----

Budgetary Comparison Schedule - Capital Projects Fund	25
---	----

ADDITIONAL INFORMATION*Nonmajor Governmental Fund Types:*

Combining Balance Sheet	26
-------------------------	----

Combining Statement of Revenues, Expenditures and Changes in Fund Balances	27
--	----

Table of Contents (continued)

	<u>PAGE NUMBER</u>
General Fund:	
<i>Schedule of General Fund Revenue</i>	28
<i>Schedule of General Fund Expenditures</i>	29 & 30
Special Revenue Funds:	
<i>Schedule of Special Education Fund Revenue</i>	31
<i>Schedule of Special Education Fund Expenditures</i>	32 & 33
<i>Schedule of Vocational Education Fund Revenues</i>	34
<i>Schedule of Vocational Education Fund Expenditures</i>	35 & 36
Fiduciary Funds:	
<i>Trust and Agency Fund Schedule of Receipts and Disbursements and Changes in Liabilities - Student Activities</i>	37
Schedule of Bonded Debt	38 & 39

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

September 22, 2006

Independent Auditor's Report

To the Board of Education
Sanilac Intermediate School District
Peck, MI

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sanilac Intermediate School District, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Sanilac Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Sanilac Intermediate School District as of June 30, 2006 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of Sanilac Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
September 22, 2006

The management's discussion and analysis and budgetary comparison information on pages i through ix and pages 22 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Sanilac Intermediate School District's basic financial statements. The additional information on pages 26 to 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Sanilac Intermediate School District, located in Sanilac County, Michigan, is in its fourth year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Sanilac Intermediate School District's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Fund Financial Statements and District Wide Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Special Education and Vocational Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Sanilac Intermediate School District net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services. Property taxes, unrestricted State aid, and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

NET ASSETS SUMMARY

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$1,948,302	\$2,903,491
Non-Current Assets	<u>4,808,038</u>	<u>3,794,228</u>
<u>TOTAL ASSETS</u>	<u><u>\$6,756,340</u></u>	<u><u>\$6,697,719</u></u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,377,491	\$1,095,942
Long-Term Liabilities	<u>1,888,307</u>	<u>2,120,963</u>
Total Liabilities	\$3,265,798	\$3,216,905
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	2,636,443	1,450,153
Restricted for Debt Service	78,193	95,568
Restricted for Capital Projects	408	876,441
Unrestricted	<u>775,498</u>	<u>1,058,652</u>
Total Net Assets	<u><u>\$3,490,542</u></u>	<u><u>\$3,480,814</u></u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u><u>\$6,756,340</u></u>	<u><u>\$6,697,719</u></u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$262,673	\$249,365
Property Taxes Levied for Special Education Operations	946,255	898,005
Property Taxes Levied for Vocational Education Operations	2,103,836	1,996,254
Property Taxes Levied for Debt Service	180,239	184,497
State of Michigan Foundation Aid	624,411	632,603
Other General Revenues	831,140	780,161
Total General Revenues	<u>\$4,948,554</u>	<u>\$4,740,885</u>
<u>Operating Grants:</u>		
Federal	2,304,752	2,371,743
State of Michigan	1,291,310	1,223,250
Other Grants		558,603
Total Operating Grants	<u>\$3,596,062</u>	<u>\$4,153,596</u>
<u>Charges for Services:</u>		
General Fund	-	14,853
Special Education Fund	269,064	223,977
Vocational Education Fund	240,226	435,994
Total Charges for Services	<u>\$509,290</u>	<u>\$674,824</u>
Total Revenues	<u>\$9,053,906</u>	<u>\$9,569,305</u>
<u>EXPENSES</u>		
Instruction & Instructional Support	3,397,141	3,401,534
Support Services	4,331,515	5,598,838
Community Services	317,574	373,451
Transfers to other governmental units	908,507	-
Interest on Long-Term Debt	88,947	52,775
Depreciation	175,908	108,481
Total Expenses	<u>\$9,219,592</u>	<u>\$9,535,079</u>
<u>INCREASE IN NET ASSETS</u>	(\$165,686)	\$34,226
<u>BEGINNING NET ASSETS</u>	3,480,814	<u>3,446,588</u>
<u>PRIOR YEAR CORRECTION</u>	<u>175,414</u>	-
<u>ENDING NET ASSETS</u>	<u>\$3,490,542</u>	<u>\$3,480,814</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets increased by \$9,728 to a total of \$3,490,542. The largest portions of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$1,186,290 during the year due to the purchase of assets and the completion of a capital project. The District's Unrestricted Net Assets decreased by \$283,154 during the year and the restricted portion of the net assets decreased by \$893,408. The restricted Net Assets consist of the debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$9,728. The total revenues decreased by \$515,399. The major change was state aid reductions and fire insurance proceeds recognized in year of event. Total expenditures decreased by \$315,487 due to reduction in staff, fire replacement, reduction in operation and maintenance and instructional program costs, contracted Speech Therapy services and securing of lower interest rates on borrowings.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$938 during the year with the decrease coming primarily from a reduction in cash. Revenues and other financing sources for the year decreased by \$299,252 primarily from reduction in state aid, particularly section 81 funding and the termination of service to EDC of Sanilac County. Expenditures and other financing uses decreased by \$429,873, primarily due to professional development offerings, benefit changes and elimination of EDC at calendar year end. The major source of general fund revenues is state aid and taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Section 81)

The State of Michigan aid provided under Section 81 of the State Aid Act provides the majority of state aid to the District's General Fund. Funding to the District under Section 81 is provided to comply with the requirements of the State Aid Act and to provide technical assistance to local districts as authorized by the intermediate school board. Funding under Section 81 was \$621,503 (\$340,920 posted to general fund, \$138,081 to special education and \$142,502 to vocational education) for the fiscal year a decrease of \$2,908 from the previous year.

2. Property Taxes Levied For General Operations (General Fund Homestead and Non-Homestead Taxes)

The District levies .2040 mills of property taxes for operations (General Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2005-06 fiscal year was \$262,673. An increase of \$13,308 from the prior year.

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

Special Education Fund

Unreserved fund balance for the special education fund decreased by \$228,163 during the year with the decrease coming primarily from a decrease in cash. Revenues and other financing sources for the year increased by \$61,892 primarily from Medicaid reimbursements and property taxes. Expenditures and other financing uses increased by \$362,197 primarily reduction in instructional classroom expenditures, contracted services and transportation expenditures. The major source of special education revenues is federal grants, state aid and taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Section 51)

The State of Michigan aid provided under Section 51 of the State Aid Act provides the majority of state aid to the District's Special Education Fund. Funding to the District under Section 51 is provided to reimburse the District for unreimbursed costs of special education programs, services and special education personnel. Funding under Section 51 was \$741,465 for the fiscal year an increase of \$41,122 from the previous year.

2. Property Taxes Levied For Special Education

The District levies .7346 mills of property taxes for operations (Special Education Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2005-06 fiscal year was \$946,255. An increase of \$48,250 from the prior year.

Vocational Education Fund

Unreserved fund balance for the vocational education fund decreased by \$80,514 during the year with the decrease coming primarily from a decrease in cash. Revenues and other financing sources for the year increased by \$400,607 primarily due to an increase in state aid sections 81, 61.1 and 62, Peak consortium reimbursement, interest on investments, Entrepreneur carry over monies and transfer from General Fund for fire expenditure reimbursement. Expenditures and other financing uses increased by \$297,983 primarily due to yearly salary and benefit increases, upgrading program equipment, addition of Entrepreneur Grant and additional Michigan Works funding. The major source of vocational education revenues is taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Sections 61 and 62)

The State of Michigan aid provided under Sections 61 and 62 of the State Aid Act provides the majority of state aid to the District's Vocational Education Fund. Funding to the District under Sections 61 and 62 is provided to reimburse, on an added cost basis, the District for unreimbursed costs of its vocational-technical education center and vocational-technical programs and services. Funding under Sections 61 and 62 was \$337,275 for the fiscal year and decrease of \$7,535 from the previous year.

2. Property Taxes Levied For Vocational Education

The District levies 1.6332mills of property taxes for operations (Vocational Education Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$2,103,836. An increase of \$107,582 from the prior year.

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

2005 Capital Projects Fund

The District's 2005 capital projects fund balance was depleted upon Engineering & Design/ABC building completion. The primary source of revenue was interest earned.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$1,224,054	\$1,176,959	\$1,171,787	3.85	0.44
Expenditures	1,206,939	1,236,904	1,172,725	(2.48)	5.19
<u>TOTAL</u>	<u>\$17,115</u>	<u>(\$59,945)</u>	<u>(\$938)</u>		

SPECIAL EDUCATION FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$4,175,051	\$4,013,271	\$3,800,113	3.87	5.31
Expenditures	4,223,031	4,070,230	4,028,276	3.62	1.03
<u>TOTAL</u>	<u>(\$47,980)</u>	<u>(\$56,959)</u>	<u>(\$228,163)</u>		

VOCATIONAL EDUCATION FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$3,712,026	\$3,828,651	\$3,872,648	(3.14)	(1.15)
Expenditures	3,843,246	3,939,712	3,953,162	(2.51)	(0.34)
<u>TOTAL</u>	<u>(\$131,220)</u>	<u>(\$111,061)</u>	<u>(\$80,514)</u>		

2005 CAPITAL PROJECTS FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$728,250	\$360,947	\$360,970	50.44	(0.01)
Expenditures	728,250	985,757	985,784	(35.36)	(0.00)
<u>TOTAL</u>	<u>\$0</u>	<u>(\$624,810)</u>	<u>(\$624,814)</u>		

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sanilac Intermediate School District amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year. Significant budget variations were as follows:

Original Budget vs. Final Budget

General Fund

Revenues: Professional Development generated more than anticipated. Summer Camp/Science enrollment was higher than anticipated. The District was awarded Middle School Math/Science monies, Reading First-LETRS and Toyota grants. State aid section 81 was reduced by 8%. Literacy received funding at an increased 47% level of funding. Received homeland security monies. Fiscal agreement with Economic Development terminated 12/31/2005 resulting in a reduction in billable revenue.

Expenditures: Professional development offerings were greater than originally anticipated. Summer Camp/Science enrollment was higher than anticipated. The District was awarded Middle School Math/Science, Reading First/LETRS and Toyota grants that weren't included in original budget. Received homeland security monies that were used to offset administrative costs. The district saved money by all administrative & teaching staff switching to Choices II insurance coverage. The district purchased a copier outright versus leasing it. Literacy received additional funding to provide service to county.

Special Education Fund

Revenues: Funding for the Medicaid-School Based Services and AOP Administrative outreach increased based upon actual receipts. I.D.E.A. decreased based upon actual receipts. Contracted Services-local decreased based on actual service to locals.

Expenditures: Decreased expenditures in instructional programs, support services, transportation, and interest on anticipated borrowing..

Vocational Education Fund

Revenues: Carry over funding through Entrepreneur grant. Peak consortium reimbursement increased by 8%. Section 61A.1 Added cost monies increased. Received transfer from General Fund for fire reimbursement Adult Education Tuition increased based on class offerings. Interest on Investments increased.

Expenditures: Transferred money to complete the 2005 Building & Site project, decreased expenditures in instructional programs, support services, and interest on tax anticipative borrowing less than originally budgeted.

2005 Capital Projects Fund

Revenues and Expenditures: Increase in interest earned. No significant change in expenditures

Actual Results vs. Final Budget

General Fund

Revenues and Expenditures: Received reimbursement from EDC for actual unemployment expenditures. Expenditure variations occurred in actual audit expenses in professional development, Great Parents, Great Start, Reading First-LETR, and technology expenditures. Monies unspent will be carried over for future years usage.

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ANALYSIS OF BUDGETS: (Continued)

Actual Results vs. Final Budget (Continued)

Special Education Fund

Revenues: Significant variances in actual results versus final budget were due to actual Medicaid and AOP receipts and timing of IDEA receipts.

Expenditures: Variances occurred primarily in reduced instructional classroom expenditures, contracted services and transportation expenditures.

Vocational Education Fund

Revenues: Significant variances in actual results versus budget were due to interest earned, resale programs & miscellaneous revenue.

Expenditures: Variances occurred primarily in reductions in instructional classroom expenditures, MI Works-summer program, administration, and outgoing transfers.

2005 Capital Projects Funds

Revenues and Expenditures: No significant changes.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
Bonds Payable	\$2,269,752	\$0	\$248,601	\$2,021,151
Contracts Payable	74,323	0	27,426	46,897
Unpaid Sick & Vacation Payable	52,589	50,958	0	103,547
<u>Total Long-Term Obligations</u>	<u>\$2,396,664</u>	<u>\$50,958</u>	<u>\$276,027</u>	<u>\$2,171,595</u>

The District issued bonds on March 8, 2005 in the amount of \$425,000. The bonds mature serially through May 1, 2019, at varying principal amounts. Interest rates on the bonds range from 2.65% to 4.25% per annum. The balance of the bonds at June 30, 2006, was \$405,000.

SANILAC INTERMEDIATE SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Capital Assets

The district's net investment in capital assets increased by \$1,013,810 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets	\$7,285,849	\$1,124,718	\$0	\$8,410,567
Less: Accumulated Depreciation	(3,491,621)	(110,908)	0	(3,602,529)
<u>Net Investment Capital Outlay</u>	<u>\$3,794,228</u>	<u>\$1,013,810</u>	<u>\$0</u>	<u>\$4,808,038</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Sanilac Intermediate School District.

BASIC FINANCIAL STATEMENTS

SANILAC INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	GOVERNMENTAL ACTIVITIES
<hr/>	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 839,839
Accounts receivable	53,114
Interest receivable	-
Due from other governmental units	1,049,915
Prepaid expenses	5,434
	<hr/>
TOTAL CURRENT ASSETS	1,948,302
	<hr/>
NONCURRENT ASSETS:	
Capital assets	8,410,567
Less accumulated depreciation	(3,602,529)
	<hr/>
TOTAL NONCURRENT ASSETS	4,808,038
	<hr/>
TOTAL ASSETS	<u><u>\$ 6,756,340</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 131,596
Salaries payable	426,451
Accrued expenses	176,009
Deferred revenue	360,147
Current portion of long term debt	283,288
	<hr/>
TOTAL CURRENT LIABILITIES	1,377,491
	<hr/>
NONCURRENT LIABILITIES:	
Noncurrent portion of long term debt	1,888,307
	<hr/>
TOTAL LIABILITIES	3,265,798
	<hr/>
NET ASSETS:	
Invested in capital assets, net of related debt	2,636,443
Restricted for debt service	78,193
Restricted for capital projects	408
Unrestricted	775,498
	<hr/>
TOTAL NET ASSETS	3,490,542
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,756,340</u></u>

The accompanying notes are an integral part of the financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,397,141		\$ 691,426	\$ (2,705,715)
Support services	4,331,515	\$ 509,290	1,613,326	(2,208,899)
Community services	317,574			(317,574)
Transfers to other governmental units	908,507			(908,507)
Interest on long-term debt	96,519		7,572	(88,947)
Unallocated depreciation	175,908			(175,908)
Total governmental activities	<u>\$ 9,227,164</u>	<u>\$ 509,290</u>	<u>\$ 2,312,324</u>	<u>(6,405,550)</u>
General revenues:				
Property taxes, levied for general purposes				3,493,003
State sources				1,915,721
Investment revenue				54,937
Transfers from other governmental units				606,765
Gain on sale of assets				2,322
Miscellaneous				167,116
Total general revenue				<u>6,239,864</u>
Change in net assets				(165,686)
Net assets, beginning of year				3,480,814
Prior year correction for construction in progress not capitalized				<u>175,414</u>
Net assets, end of year				<u>\$ 3,490,542</u>

The accompanying notes are an integral part of the financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>SPECIAL REVENUE</u>			
	<u>GENERAL FUND</u>	<u>SPECIAL EDUCATION</u>	<u>VOCATIONAL EDUCATION</u>	<u>2005 CAPITAL PROJECTS</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 205,539	\$ 180,947	\$ 374,917	\$ 408
Accounts receivable	160	280	52,674	-
Interest receivable				
Due from other governmental units	98,510	750,648	200,451	-
Due from other funds	1,616	-	-	-
Prepaid expenses	5,209	-	225	-
TOTAL ASSETS	<u>\$ 311,034</u>	<u>\$ 931,875</u>	<u>\$ 628,267</u>	<u>\$ 408</u>
<u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts payable	\$ 24,395	\$ 55,932	\$ 51,128	-
Due to other funds	-	1,616	-	-
Salaries payable	20,088	221,199	185,164	-
Accrued payroll liabilities	5,419	83,388	50,245	-
Deferred revenue	112,672	247,475	-	-
TOTAL LIABILITIES	<u>162,574</u>	<u>609,610</u>	<u>286,537</u>	<u>-</u>
FUND BALANCE:				
Unreserved:				
Designated for capital outlay				\$ 408
Designated for debt retirement				
Designated for compensated absences	34,793	37,380	31,374	
Undesignated	113,667	284,885	310,356	-
TOTAL FUND BALANCE	<u>148,460</u>	<u>322,265</u>	<u>341,730</u>	<u>408</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 311,034</u>	<u>\$ 931,875</u>	<u>\$ 628,267</u>	<u>\$ 408</u>

The accompanying notes are an integral part of the financial statements.

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 78,028	\$ 839,839
-	53,114
-	-
306	1,049,915
	1,616
	5,434
\$ 78,334	\$ 1,949,918

\$ 141	\$ 131,596
-	1,616
	426,451
	139,052
	360,147
141	1,058,862

	\$ 408
78,193	78,193
	103,547
	708,908
78,193	891,056
\$ 78,334	\$ 1,949,918

SANILAC INTERMEDIATE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 891,056
--	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost of capital assets	8,410,567
Accumulated depreciation	(3,602,529)

Accrued interest on long-term debt	(36,957)
------------------------------------	----------

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(2,021,151)
Contracts payable	(46,897)
Sick and vacation pay	(103,547)
	<u> </u>

Net Assets of Governmental Activities	<u><u>\$ 3,490,542</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of the financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	SPECIAL REVENUE			
	GENERAL FUND	SPECIAL EDUCATION	VOCATIONAL EDUCATION	CAPITAL PROJECTS
REVENUES:				
Local sources	\$ 300,769	\$ 1,246,362	\$ 2,431,700	\$ 869
State sources	497,223	893,078	508,116	
Federal sources	43,794	1,608,291	652,667	
TOTAL REVENUES	841,786	3,747,731	3,592,483	869
EXPENDITURES:				
Instruction	168,341	1,272,625	1,905,217	
Student services		823,839	105,236	
Instructional support	408,130	673,121	107,948	
General administration	198,512	75,579	64,707	
School administration		183,841	462,641	
Business administration	79,528	41,469	53,635	
Operation and maintenance	24,987	50,153	428,079	
Transportation		301,364		
Other support services	93,191	35,214	148,441	
Community services	116,269	25,880	175,425	
Capital outlay				985,784
Debt service				
TOTAL EXPENDITURES	1,088,958	3,483,085	3,451,329	985,784
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	(247,172)	264,646	141,154	(984,915)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	50,526	306,264
Operating transfers out	(50,526)	(25,383)	(118,529)	-
Transfers from other governmental units	329,066	50,060	227,639	-
Transfers to other governmental units	(33,241)	(505,393)	(369,873)	-
Loan payments	-	(14,415)	(13,431)	-
Insurance reimbursements	935	-	-	54,249
Donated Items	-	-	2,000	-
Sale of school property	-	2,322	-	-
TOTAL OTHER FINANCING SOURCES (USES)	246,234	(492,809)	(221,668)	360,513
Net Change in Fund Balance	(938)	(228,163)	(80,514)	(624,402)
FUND BALANCE - BEGINNING OF YEAR	149,398	550,428	422,244	624,810
FUND BALANCE - END OF YEAR	\$ 148,460	\$ 322,265	\$ 341,730	\$ 408

The accompanying notes are an integral part of the financial statements.

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 187,462	\$ 4,167,162
24,876	1,923,293
	2,304,752
212,338	8,395,207
	3,346,183
	929,075
	1,189,199
	338,798
	646,482
	174,632
	503,219
	301,364
	276,846
	317,574
	985,784
318,992	318,992
318,992	9,328,148
(106,654)	(932,941)
76,334	433,124
(238,686)	(433,124)
	606,765
	(908,507)
	(27,846)
	55,184
	2,000
	2,322
(162,352)	(270,082)
(269,006)	(1,203,023)
347,199	2,094,079
\$ 78,193	\$ 891,056

SANILAC INTERMEDIATE SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2006

Total net change in fund balances--governmental funds	\$ (1,203,023)
---	----------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(175,908)
Capital outlay	1,014,305

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	10,829
Accrued interest payable at the end of the year	(36,957)

Loan proceeds	-
Payments on Debt	276,026

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	52,589
Accrued absences at the end of the year	(103,547)

Change in net assets of governmental activities	<u><u>\$ (165,686)</u></u>
---	----------------------------

The accompanying notes are an integral part of the financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>TRUST & AGENCY</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u><u>\$ 71,922</u></u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Due to Student Groups	<u><u>\$ 71,922</u></u>

The accompanying notes are an integral part of the financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Sanilac Intermediate School District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in GASB Statements #14 and #39, nor is the District a component unit of another entity.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has largely been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges paid by recipients who purchase, use, or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the Intermediate School District and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District utilizes restricted resources to finance their respective, qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):

Governmental Funds:

Governmental funds are those funds through which most school district functions are typically financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following **major** governmental funds:

The *General Fund* is the District's primary administration fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects). The District's **major** special revenue funds consist of the Special Education and Vocational Education funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects. The Capital Project Fund includes capital project activities funded by the sale of bonds. The following is a summary of the revenue and expenditures in the Sanilac Intermediate School District capital projects fund from the inception of the fund through the current fiscal year.

	June 30,		
	<u>2005</u>	<u>2006</u>	<u>Total</u>
Revenue & other financial sources	\$800,224	\$361,382	\$1,161,606
Expenditures & other financing uses	\$175,414	\$986,192	\$1,161,606

For this capital project, the district has complied with the applicable provisions of section 1351a of the Revised School Code.

The District reports the following **nonmajor** governmental funds:

The *Debt Service Funds* account for the servicing of general long-term debt.

Fiduciary Funds:

Fiduciary funds account for assets held by the district in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the district under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following **fiduciary** fund:

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental funds are used to account for the District's general government activities. Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach that provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2005 to August, 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year-end).

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund	0.2040
Special Revenue Funds:	
Special Education Fund	0.7346
Vocational Education Fund	1.6332
Debt Retirement Fund	0.1400

3. Prepaid items.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Receivables and Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds Balance Sheet.

5. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as followed:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences.

The District reports compensated absences in accordance with the provisions of GASB #16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

7. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

8. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

9. Use of Estimates.

The process of preparing basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U. S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget (GAAP basis) and actual - general, special revenue, debt service and capital project funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY (Continued):

6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

NOTE 3 - CASH AND INVESTMENTS - CREDIT RISK:

As of June 30, 2006, the District had no investments.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$863,309 of the District's bank balance of \$974,939 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are reported in the financial statements as follows:

Cash - Agency Fund	\$ 71,922
Cash - District wide	<u>839,839</u>
	<u>\$911,761</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2006</u>
Assets not being depreciated – land	\$ 62,155			\$ 62,155
Other capital assets:				
Building and Improvements	5,729,199	\$1,161,198		6,890,397
Land Improvements	17,246			17,246
Equipment and Furniture	1,095,626	28,520		1,124,146
Vehicles	<u>381,623</u>	<u>-</u>	<u>\$(65,000)</u>	<u>316,623</u>
Subtotal - Other	7,223,694	1,189,718	(65,000)	8,348,412
Accumulated depreciation:				
Building and Improvements	(2,203,531)	(131,438)		(2,334,969)
Land Improvements	(7,572)	(862)		(8,434)
Equipment and Furniture	(977,287)	(24,010)		(1,001,297)
Vehicles	<u>(303,231)</u>	<u>(19,598)</u>	<u>65,000</u>	<u>(257,829)</u>
Total accumulated depreciation	<u>(3,491,621)</u>	<u>(175,908)</u>	<u>65,000</u>	<u>(3,602,529)</u>
Net Other capital assets:	<u>3,732,073</u>	<u>1,013,810</u>	<u>-</u>	<u>4,745,883</u>
Net capital assets	<u>\$3,794,228</u>	<u>\$1,013,810</u>	<u>\$ -</u>	<u>\$4,808,038</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$175,908.

NOTE 5 – SELF INSURANCE POOL

The District participates in a public entity risk pool (self insurance pool) for its workers' compensation, property and casualty, and vehicle insurance. The pool is through the MASB/SET/SEG and is administered by Cannon Cochran Management Services, Inc. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6- RISK MANAGEMENT:

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In the past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

NOTE 7- LONG-TERM DEBT:

Durant Resolution Package Bonds

Sanilac Intermediate School District issued Durant Resolution Bonds on November 24, 1998 in the amount of \$347,037 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the District is under no obligation for payment. The balance at June 30, 2006 was \$204,913. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

2001 General Obligation School Building and Site Bonds

The bonds were issued February 20, 2001 in the amount of \$1,655,000, for the purpose of erecting, furnishing and equipping a special education classroom addition to be located at Maple Valley Elementary School in Sandusky. The bonds mature serially through May 1, 2011, at varying principal amounts. Interest rates on the bonds is 4.0% per annum. The balance of the bonds at June 30, 2006, was \$945,000.

2001 School Building and Site Bonds (General Obligation – Limited Tax) Qualified Zone Academy Bonds

Sanilac Intermediate School District issued 2001 School Building and Site Bonds dated July 12, 2001, in the amount of \$673,450 at 100% of par and accrued interest to the date of delivery, maturing on July 12 of each year. The balance as of July 30, 2006 was \$466,238.

2005 School Building and Site Bonds (General Obligation – Limited Tax)

The bonds were issued March 8, 2005 in the amount of \$425,000. The bonds mature serially through May 1, 2019, at varying principal amounts. Interest rates on the bonds range from 2.90% to 4.25% per annum. The balance of the bonds at June 30, 2006, was \$405,000.

Contracts Payable

Contracts payable consisted of the following at June 30, 2006:

3.5% note to Tri-County Bank, \$388 payments monthly, including interest, collateralized by Dodge pickup, matures July 1, 2010.	\$16,968
2.45% note to Tri-County Bank, \$15,523 payments annually, plus interest, collateralized by 1 bus, matures June 25, 2008.	<u>29,929</u>
TOTAL	<u>\$46,897</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7- LONG-TERM DEBT (Continued):

Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	Bonds Payable	Contracts Payable	Interest	Total
June 30, 2007	\$ 264,397	\$ 18,891	\$ 61,025	\$ 344,313
June 30, 2008	275,239	19,402	52,151	346,792
June 30, 2009	348,793	4,410	70,738	423,941
June 30, 2010	297,035	4,194	33,317	334,536
June 30, 2011	307,999	-	23,432	331,431
June 30, 2012-2016	412,688	-	46,863	459,551
June 30, 2016-2021	115,000	-	9,912	124,912
TOTAL	\$ 2,021,151	\$ 46,897	\$ 297,438	\$ 2,365,476

The payment dates for sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$71,803.

Changes in General Long-Term Debt

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Governmental Activities:</u>				
General Obligation & Durant Bonds	\$ 2,269,752	-	\$ 248,601	\$ 2,021,151
Contracts Payable	74,323	-	27,426	46,897
Unpaid Sick & Vacation Payable	52,589	\$ 50,958	-	103,547
Total Governmental Activities	\$ 2,396,664	\$ 50,958	\$ 276,027	\$ 2,171,595

NOTE 8 – OPERATING LEASES

The District entered into a lease with the Sandusky Community Schools for the purpose of leasing a building under construction at the Sandusky Middle School. The lease dated June 16, 1993 began on July 1, 1993 with occupancy occurring on or about August 23, 1993 and extends for fifteen years. Lease payments totaling \$140,000 were paid at the inception of the lease. The purpose of the lease is to allow the consortium to provide special education services and other related services. The Sandusky Community Schools is responsible for all utilities and property and casualty insurance. Sanilac Intermediate School District is responsible for custodial services.

Sanilac Intermediate School District has entered into the following operating lease summarized below:

	Monthly Payment	Maturity Date
GMAC – Van	\$ 391	May, 2007

Future anticipated lease payments all in the 2006-07 fiscal year amount to \$4,191.

**SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus and additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the district are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005, and 2004 were approximately 635,014, \$578,792 and \$525,739, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

OTHER POST-EMPLOYMENT BENEFITS:

Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

A recap of the interfund receivables and payables that exist at June 30, 2006 is as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	-	\$1,616
Special Education	<u>\$1,616</u>	<u>-</u>
Total	<u>\$1,616</u>	<u>\$1,616</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 – TRANSFERS

	<u>Transfers To</u>	<u>Transfers From</u>
General Fund	\$ 50,526	-
Special Education Fund	25,383	-
Career Technology Preparation	118,529	\$ 50,526
Capital Projects	-	306,264
Debt Retirement	<u>238,686</u>	<u>76,334</u>
Total	<u>\$433,134</u>	<u>\$433,134</u>

The transfer from the General Fund to the Vocational Education Fund is for the reimbursement of fire damage and custodial services. The transfers from the Special Education and Vocational Education Funds to the Debt Retirement Fund are for QZAB loan requirements. Other transfers to the Building and Site Fund were to provide additional funding to complete the project.

NOTE 12 – SUBSEQUENT EVENTS

The District borrowed \$1,350,000 at 3.79% interest per annum on July 20, 2006, from Tri-County Bank on a Property Tax Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The notes mature on April 2, 2007.

General Fund	\$ 140,000
Special Education Fund	395,000
Career Technological Preparation Fund	<u>815,000</u>
TOTAL	<u>\$1,350,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANILAC INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET			VARIANCE- WITH FINAL BUDGET- FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUE:				
Local sources	\$ 295,236	\$ 305,887	\$ 300,769	\$ (5,118)
State sources	505,125	500,195	497,223	(2,972)
Federal sources	17,468	25,368	43,794	18,426
TOTAL REVENUE	817,829	831,450	841,786	10,336
EXPENDITURES:				
Instruction	173,260	168,570	168,341	229
Supporting services:				
Instructional staff	362,422	425,399	408,130	17,269
General administration	287,715	195,143	198,512	(3,369)
Business administration	93,467	79,720	79,528	192
Operation and maintenance	33,148	25,439	24,987	452
Other support services	28,823	129,274	93,191	36,083
Community services	28,000	119,756	116,269	3,487
TOTAL EXPENDITURES	1,006,835	1,143,301	1,088,958	54,343
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	(189,006)	(311,851)	(247,172)	64,679
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	-	(50,526)	(50,526)	-
Transfers to other governmental units	(200,104)	(43,077)	(33,241)	9,836
Transfers from other governmental units	406,225	344,574	329,066	(15,508)
Insurance reimbursements	-	935	935	-
TOTAL OTHER FINANCING SOURCES (USES)	206,121	251,906	246,234	(5,672)
Net Change in Fund Balance	17,115	(59,945)	(938)	59,007
FUND BALANCE - JULY 1	149,398	149,398	149,398	-
FUND BALANCE - JUNE 30	\$ 166,513	\$ 89,453	\$ 148,460	\$ 59,007

SANILAC INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET			VARIANCE- WITH FINAL BUDGET- FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUE:				
Local sources	\$ 1,240,093	\$ 1,194,714	\$ 1,246,362	\$ 51,648
State sources	954,723	893,299	893,078	(221)
Federal sources	1,898,100	1,872,464	1,608,291	(264,173)
TOTAL REVENUE	4,092,916	3,960,477	3,747,731	(212,746)
EXPENDITURES:				
Instruction	1,389,375	1,287,427	1,272,625	14,802
Supporting services				
Student services	813,701	828,201	823,839	4,362
Instructional support	316,973	686,705	673,121	13,584
General administration	211,253	76,272	75,579	693
School administration	62,788	184,409	183,841	568
Business administration	38,510	41,670	41,469	201
Operation & maintenance	120,725	52,787	50,153	2,634
Transportation	413,847	318,334	301,364	16,970
Other support services	409,187	36,295	35,214	1,081
Community services	4,100	25,064	25,880	(816)
TOTAL EXPENDITURES	3,780,459	3,537,164	3,483,085	54,079
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	312,457	423,313	264,646	(158,667)
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	(25,383)	(25,383)	(25,383)	-
Transfers to other governmental units	(405,189)	(507,683)	(505,393)	2,290
Transfers from other governmental units	82,135	50,472	50,060	(412)
Loan Payments	(12,000)	-	(14,415)	(14,415)
Sale of capital assets	-	2,322	2,322	-
TOTAL OTHER FINANCING SOURCES (USES)	(360,437)	(480,272)	(492,809)	(12,537)
Net Change in Fund Balance	(47,980)	(56,959)	(228,163)	(171,204)
FUND BALANCE - JULY 1	550,428	550,428	550,428	-
FUND BALANCE - JUNE 30	\$ 502,448	\$ 493,469	\$ 322,265	\$ (171,204)

SANILAC INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
VOCATIONAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET			VARIANCE- WITH FINAL BUDGET- FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUE:				
Local sources	\$ 2,610,144	\$ 2,405,018	\$ 2,431,700	\$ 26,682
State sources	433,597	464,275	508,116	43,841
Federal sources	422,412	681,268	652,667	(28,601)
TOTAL REVENUE	3,466,153	3,550,561	3,592,483	41,922
EXPENDITURES:				
Instruction	1,880,910	1,919,110	1,905,217	13,893
Supporting services				
Student services	25,300	113,621	105,236	8,385
Instructional support	179,829	105,949	107,948	
General administration	62,788	65,286	64,707	579
School administration	533,169	453,499	462,641	(9,142)
Business administration	61,319	53,311	53,635	
Operation & maintenance	442,976	413,668	428,079	(14,411)
Other support services	420,912	149,222	148,441	781
Community services	-	175,688	175,425	263
TOTAL EXPENDITURES	3,607,203	3,449,354	3,451,329	348
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	(141,050)	101,207	141,154	39,947
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	(38,767)	(118,094)	(118,529)	(435)
Transfers from other funds	48,923	50,526	50,526	-
Transfers to other governmental units	(176,005)	(363,135)	(369,873)	(6,738)
Transfers from other governmental units	194,950	225,564	227,639	2,075
Payments on loans	(21,271)	(9,129)	(13,431)	(4,302)
Donated items	2,000	2,000	2,000	-
TOTAL OTHER FINANCING SOURCES (USES)	9,830	(212,268)	(221,668)	(9,400)
Net Change in Fund Balance	(131,220)	(111,061)	(80,514)	30,547
FUND BALANCE - JULY 1	422,244	422,244	422,244	-
FUND BALANCE - JUNE 30	\$ 291,024	\$ 311,183	\$ 341,730	\$ 30,547

**SANILAC INTERMEDIATE SCHOOL DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>			<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	
REVENUE:				
Local Sources	<u>\$ 1,181</u>	<u>\$ 870</u>	<u>\$ 869</u>	<u>\$ (1)</u>
TOTAL REVENUE	1,181	870	869	(1)
EXPENDITURES:				
Capital Outlay	<u>728,250</u>	<u>985,757</u>	<u>985,784</u>	<u>(27)</u>
TOTAL EXPENDITURES	728,250	985,757	985,784	(27)
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(727,069)</u>	<u>(984,887)</u>	<u>(984,915)</u>	<u>26</u>
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	240,000	305,828	306,264	436
Insurance reimbursement	<u>487,069</u>	<u>54,249</u>	<u>54,249</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>727,069</u>	<u>360,077</u>	<u>360,513</u>	<u>\$ 436</u>
Net Change in Fund Balance	-	(624,810)	(624,402)	408
FUND BALANCE - JULY 1	<u>624,810</u>	<u>624,810</u>	<u>624,810</u>	<u>-</u>
FUND BALANCE - JUNE 30	<u>\$ 624,810</u>	<u>\$ -</u>	<u>\$ 408</u>	<u>408</u>

ADDITIONAL INFORMATION

SANIALC INTERMEDIATE SCHOOL DISTRICT
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	1998 Durant Debt Retierment	2001 Debt Retirement Maple Valley	QZAB Debt Retirement	2005 Debt Retirement	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ 77,887	\$ 141	\$ -	\$ 78,028
Accounts receivable					-
Interest receivable					-
Due from other governmental units		306			306
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 78,193</u>	<u>\$ 141</u>	<u>\$ -</u>	<u>\$ 78,334</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 141	\$ -	\$ 141
Due to other funds					-
FUND BALANCES					
Reserved for debt retirement	-	78,193	-	-	78,193
Reserved for capital projects					-
TOTAL FUND BALANCES	<u>-</u>	<u>78,193</u>	<u>-</u>	<u>-</u>	<u>78,193</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 78,193</u>	<u>\$ 141</u>	<u>\$ -</u>	<u>\$ 78,334</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	1998 Durant Debt Retirement	2001 Debt Retirement Maple Valley	QZAB Debt Retirement	2005 Debt Retirement	Total
REVENUES					
Local Sources					
Property taxes	\$ -	\$ 180,239	\$ -	\$ -	\$ 180,239
Taxes other than property	-	873	-	-	873
Earnings on investments and deposits	-	5,509	841	-	6,350
Total Local Sources	-	186,621	841	-	187,462
State Sources	24,370	506	-	-	24,876
TOTAL REVENUES	24,370	187,127	841	-	212,338
OTHER FINANCING SOURCES					
Transfers from other funds	-	-	38,017	38,317	76,334
TOTAL REVENUES AND OTHER FINANCING SOURCES	24,370	187,127	38,858	38,317	288,672
EXPENDITURES					
Debt Retirement					
Redemption of bond principal					-
Interest on bonded debt	7,572	44,040	-	18,317	69,929
Dues and fees	-	275	-	-	275
Taxes abated	-	187	-	-	187
Principal payment	16,798	160,000	51,803	20,000	248,601
TOTAL EXPENDITURES	24,370	204,502	51,803	38,317	318,992
OTHER FINANCING USES					
Transfers to other funds	-	-	238,686	-	238,686
TOTAL EXPENDITURES AND OTHER FINANCING USES	24,370	204,502	290,489	38,317	557,678
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-	(17,375)	(251,631)	-	(269,006)
FUND BALANCE - JULY 1	-	95,568	251,631	-	347,199
FUND BALANCE - JUNE 30	\$ -	\$ 78,193	\$ -	\$ -	\$ 78,193

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF GENERAL FUND REVENUE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE FROM LOCAL SOURCES:			
Property tax levy	\$ 263,136	\$ 262,673	\$ (463)
Non-property taxes	900	1,301	401
Income on investments and deposits	9,575	10,485	910
Other local revenues	<u>32,276</u>	<u>26,310</u>	<u>(5,966)</u>
TOTAL REVENUE FROM LOCAL SOURCES	<u>305,887</u>	<u>300,769</u>	<u>848</u>
REVENUE FROM STATE SOURCES:			
State aid- sec 81	343,829	340,919	(2,910)
Math and science challenge grant- sec 99.1	85,650	85,650	-
Renaissance zone	799	737	(62)
Durant	34,704	34,704	-
Great parents- great start	<u>35,213</u>	<u>35,213</u>	<u>-</u>
TOTAL REVENUES FROM STATE SOURCES	500,195	497,223	(2,972)
REVENUE FROM FEDERAL SOURCES:			
Title VI	1,868	1,884	16
Small Rural Schools	-	13,897	13,897
Homeland Security	-	4,513	4,513
Adult education	<u>23,500</u>	<u>23,500</u>	<u>-</u>
TOTAL REVENUES FROM FEDERAL SOURCES	<u>25,368</u>	<u>43,794</u>	<u>18,426</u>
TOTAL REVENUES	831,450	841,786	(10,336)
OTHER FINANCING SOURCES			
Transfer from other governmental units	344,574	329,066	15,508
Insurance reimbursements	<u>935</u>	<u>935</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>345,509</u>	<u>330,001</u>	<u>15,508</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 1,176,959</u>	<u>\$ 1,171,787</u>	<u>\$ 5,172</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION			
Salaries- professional	\$ 107,807	\$ 107,647	\$ 160
Salaries- non-professional	-	-	-
Insurances	31,085	31,614	(529)
Fica, retirement, and other benefits	25,978	25,879	99
Supplies and materials	3,700	3,201	499
TOTAL INSTRUCTION	<u>168,570</u>	<u>168,341</u>	<u>229</u>
SUPPORTING SERVICES:			
Instructional Support			
Salaries- professional	176,009	173,929	2,080
Salaries- non-professional	48,110	47,958	152
Insurances	38,744	39,118	(374)
Fica, retirement, and other benefits	54,206	53,494	712
Purchased services	49,409	34,835	14,574
Supplies and materials	42,459	42,487	(28)
Other	16,462	16,309	
Total Instructional Support	<u>425,399</u>	<u>408,130</u>	<u>17,116</u>
General Administration			
Salaries- professional	73,353	74,094	(741)
Salaries- non-professional	23,265	23,264	1
Insurances	15,746	15,746	-
Fica, retirement, and other benefits	36,256	38,782	(2,526)
Purchased services	35,544	34,636	908
Supplies and materials	4,000	4,921	(921)
Other	6,979	7,069	(90)
Total General Administration	<u>195,143</u>	<u>198,512</u>	<u>(3,369)</u>
Business Administration			
Salaries- professional	47,276	47,269	7
Insurances	15,280	15,542	(262)
Fica, retirement, and other benefits	11,720	11,652	68
Supplies and materials	850	601	249
Purchased services	1,720	1,696	24
Other	2,874	2,768	106
Total Business Administration	<u>79,720</u>	<u>79,528</u>	<u>106</u>
Operation and Maintenance			
Purchased services	20,056	7,428	12,628
Capital outlay	5,383	17,559	(12,176)
Total Operation and Maintenance	<u>25,439</u>	<u>24,987</u>	<u>452</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Other Support Services			
Salaries- professional	\$ 15,724	\$ 15,724	\$ -
Salaries- non-professional	8,474	8,474	-
Insurances	6,260	6,155	105
Fica, retirement, and other benefits	5,907	5,937	(30)
Purchased services	70,863	35,740	35,123
Supplies and materials	6,950	5,924	1,026
Capital outlay	1,675	1,687	(12)
Other	13,421	13,550	(129)
Total Other Support Services	<u>129,274</u>	<u>93,191</u>	<u>36,083</u>
TOTAL SUPPORT SERVICES	854,975	804,348	50,627
COMMUNITY SERVICES			
Salaries- professional	49,979	49,977	2
Salaries- non-professional	13,133	13,133	-
Insurances	11,177	11,177	-
Fica, retirement, and other benefits	9,228	15,374	(6,146)
Purchased services	30,150	24,885	5,265
Supplies and materials	6,089	1,723	4,366
TOTAL COMMUNITY SERVICES	<u>119,756</u>	<u>116,269</u>	<u>3,487</u>
TOTAL EXPENDITURES	1,143,301	1,088,958	54,343
OTHER FINANCING USES			
Transfers to other funds	50,526	50,526	-
Transfers to other governmental units	43,077	33,241	9,836
TOTAL OTHER FINANCING USES	<u>93,603</u>	<u>83,767</u>	<u>9,836</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 1,236,904</u>	<u>\$ 1,172,725</u>	<u>\$ 64,179</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SPECIAL EDUCATION FUND REVENUE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE FROM LOCAL SOURCES:			
Property tax levy	\$ 947,548	\$ 946,255	\$ (1,293)
Non-property taxes	1,000	4,549	3,549
Earnings on investments and deposits	12,710	14,335	1,625
Medicaid	218,000	269,064	51,064
Other local revenues	15,456	12,159	(3,297)
TOTAL REVENUE FROM LOCAL SOURCES	<u>1,194,714</u>	<u>1,246,362</u>	<u>51,648</u>
REVENUE FROM STATE SOURCES:			
Special education- sec 51 a	741,465	747,677	6,212
School for deaf/blind	10,876	10,876	-
Renaissance zone	2,878	2,657	(221)
Other state sources	138,080	131,868	(6,212)
TOTAL REVENUE FROM STATE SOURCES	<u>893,299</u>	<u>893,078</u>	<u>(221)</u>
REVENUE FROM FEDERAL SOURCES:			
IDEA flowthrough	1,556,336	1,291,846	(264,490)
IDEA preschool incentive	54,555	54,555	-
State initiated grants	50,000	50,000	-
Transition services	60,000	60,000	-
Medicaid Transportation	8,000	8,490	490
Medicaid Outreach	50,000	49,548	(452)
Early on	93,573	93,852	279
TOTAL REVENUE FROM FEDERAL SOURCES	<u>1,872,464</u>	<u>1,608,291</u>	<u>(264,173)</u>
TOTAL REVENUES	<u>3,960,477</u>	<u>3,747,731</u>	<u>(212,746)</u>
OTHER FINANCING SOURCES:			
Transfers from other governmental units	50,472	50,060	(412)
Sale of capital assets	2,322	2,322	-
TOTAL OTHER FINANCING SOURCES	<u>52,794</u>	<u>52,382</u>	<u>(412)</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 4,013,271</u>	<u>\$ 3,800,113</u>	<u>\$ (213,570)</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SPECIAL EDUCATION FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
Salaries- professional	\$ 461,480	\$ 462,135	
Salaries- non-professional	277,394	271,601	\$ 5,793
Insurances	342,541	336,201	6,340
Fica, retirement, and other benefits	182,591	181,137	1,454
Purchased services	980	533	447
Supplies and materials	20,941	19,518	1,423
Other	1,500	1,500	-
TOTAL INSTRUCTION	<u>1,287,427</u>	<u>1,272,625</u>	<u>14,802</u>
SUPPORTING SERVICES			
Student Services			
Salaries- professional	540,311	539,986	325
Insurances	133,277	133,705	(428)
Fica, retirement, and other benefits	131,080	130,612	468
Purchased services	16,036	14,377	1,659
Supplies and materials	7,497	5,159	2,338
Total Student Services	828,201	823,839	4,362
Instructional Support			
Salaries- professional	279,758	279,758	-
Salaries- non-professional	55,624	55,394	230
Insurances	89,776	90,035	(259)
Fica, retirement, and other benefits	81,873	81,192	681
Purchased services	168,685	156,881	11,804
Supplies and materials	10,389	8,674	1,715
Other	600	1,187	(587)
Total Instructional Support	686,705	673,121	13,584
General Administration			
Salaries- professional	33,176	33,176	-
Salaries- non-professional	11,360	11,360	-
Insurances	8,047	7,873	174
Fica, retirement, and other benefits	10,289	10,005	284
Purchased Services	13,400	13,165	235
Total General Administration	76,272	75,579	693
School Administration			
Salaries- professional	86,632	86,632	-
Salaries- non-professional	38,180	38,180	-
Insurances	24,374	24,323	51
Fica, retirement, and other benefits	31,323	31,323	-
Purchased services	1,700	1,451	249
Supplies and materials	2,200	1,932	268
Total School Administration	184,409	183,841	568

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SPECIAL EDUCATION FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES (Continued)			
Business Administration			
Salaries- professional	\$ 23,638	\$ 23,635	\$ 3
Insurances	7,858	7,771	87
Fica, retirement, and other benefits	5,914	5,880	34
Other	4,260	4,183	77
Total Business Administration	41,670	41,469	201
Operation and Maintenance			
Purchased services	29,587	28,092	1,495
Supplies and materials	16,200	15,167	1,033
Capital outlay	7,000	6,894	106
Total Operation and Maintenance	52,787	50,153	2,634
Transportation			
Salaries- non-professional	73,606	73,082	524
Insurances	47,489	46,029	1,460
Fica, retirement, and other benefits	18,257	18,192	65
Purchased services	157,010	156,789	221
Supplies and materials	7,000	6,779	
Capital outlay	14,422	-	
Other	550	493	57
Total Transportation	318,334	301,364	16,970
Other Support Services			
Salaries- professional	15,724	15,724	-
Salaries- non-professional	8,474	8,474	-
Insurances	6,155	5,631	524
Fica, retirement, and other benefits	5,907	5,893	14
Purchased services	-	(508)	508
Supplies and materials	35	-	35
Total Other Support Services	36,295	35,214	1,081
TOTAL SUPPORT SERVICES	2,224,673	2,184,580	40,093
COMMUNITY SERVICES			
Purchased services	24,214	25,485	(1,271)
Supplies and materials	850	395	455
TOTAL COMMUNITY SERVICES	25,064	25,880	(816)
TOTAL EXPENDITURES	3,537,164	3,483,085	54,079
OTHER FINANCING USES			
Transfers to other governmental units	507,683	505,393	2,290
Transfers to other funds	25,383	25,383	-
Loan Payments	-	14,415	(14,415)
TOTAL OTHER FINANCING USES	533,066	545,191	(12,125)
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 4,070,230</u>	<u>\$ 4,028,276</u>	<u>\$ 41,954</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
VOCATIONAL EDUCATION FUND
SCHEDULE OF REVENUE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE FROM LOCAL SOURCES:			
Property tax levy	\$ 2,106,636	\$ 2,103,836	\$ (2,800)
Taxes other than property	6,825	10,113	3,288
Earnings on investments and deposits	21,350	22,898	1,548
Tuition	54,526	55,027	501
Program sales	168,655	185,199	16,544
Other local revenues	<u>47,026</u>	<u>54,627</u>	<u>7,601</u>
TOTAL REVENUE FROM LOCAL SOURCES	2,405,018	2,431,700	26,682
REVENUE FROM STATE SOURCES:			
State aid- added cost sec 61 a.1	195,536	204,966	9,430
State aid- voc ed millage equalization sec 62	109,173	120,309	11,136
State aid- voc ed administration sec 61a.2	10,664	12,000	1,336
Renaissance zone	6,399	5,906	(493)
Michigan Works	-	22,432	22,432
Other state sources	<u>142,503</u>	<u>142,503</u>	<u>-</u>
TOTAL REVENUE FROM STATE SOURCES	464,275	508,116	43,841
REVENUE FROM FEDERAL SOURCES:			
MI works staffing grant	193,257	155,662	(37,595)
Tech prep grant	26,505	26,505	-
Summer school grant	40,594	49,588	8,994
Secondary regional allocation	<u>420,912</u>	<u>420,912</u>	<u>-</u>
TOTAL REVENUE FROM FEDERAL SOURCES	<u>681,268</u>	<u>652,667</u>	<u>(28,601)</u>
TOTAL REVENUES	3,550,561	3,592,483	41,922
OTHER FINANCING SOURCES:			
Transfers from other funds	50,526	50,526	-
Transfers from other governmental units	225,564	227,639	2,075
Donated items	<u>2,000</u>	<u>2,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>278,090</u>	<u>280,165</u>	<u>2,075</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 3,828,651</u>	<u>\$ 3,872,648</u>	<u>\$ 43,997</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
VOCATIONAL EDUCATION FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION			
Salaries- professional	\$ 827,222	\$ 828,799	\$ (1,577)
Salaries- non-professional	68,372	71,715	(3,343)
Insurances	293,131	293,946	(815)
Fica, retirement, and other benefits	231,249	231,177	72
Purchased services	123,415	114,395	9,020
Supplies and materials	303,336	299,223	4,113
Capital outlay	61,546	57,351	4,195
Other	10,839	8,611	2,228
TOTAL INSTRUCTION	1,919,110	1,905,217	13,893
SUPPORTING SERVICES:			
Student Services			
Salaries- professional	75,593	71,344	4,249
Fica, retirement, and other benefits	1,526	2,458	(932)
Purchased services	32,400	27,811	4,589
Supplies and materials	3,577	3,098	479
Other	525	525	-
Total Student Services	113,621	105,236	8,385
Instructional Support			
Purchased services	17,324	19,699	(2,375)
Supplies and materials	76,437	76,207	230
Capital outlay	12,008	11,907	101
Other	180	135	45
Total Instructional Support	105,949	107,948	(1,999)
General Administration			
Salaries- professional	33,177	33,176	1
Salaries- non-professional	11,360	11,360	-
Insurances	7,960	7,873	87
Fica, retirement, and other benefits	10,289	10,004	285
Purchased services	2,500	2,294	206
Total General Administration	65,286	64,707	579
School Administration			
Salaries- professional	98,341	98,341	-
Salaries- non-professional	140,010	139,982	28
Insurances	81,205	81,575	(370)
Fica, retirement, and other benefits	74,533	80,181	(5,648)
Purchased services	40,049	45,150	(5,101)
Supplies and materials	14,287	12,520	1,767
Other	5,074	4,892	182
Total School Administration	453,499	462,641	(9,142)
Business Administration			
Salaries- professional	23,638	23,635	3
Insurances	7,771	7,771	-
Fica, retirement, and other benefits	5,914	5,880	34
Other	15,988	16,349	(361)
Total Business Administration	53,311	53,635	(324)

SANILAC INTERMEDIATE SCHOOL DISTRICT
VOCATIONAL EDUCATION FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Operation and Maintenance			
Salaries- non-professional	\$ 84,468	\$ 83,869	\$ 599
Insurances	51,938	52,556	(618)
Fica, retirement, and other benefits	19,982	19,799	183
Purchased services	95,221	83,300	11,921
Supplies and materials	152,406	173,406	(21,000)
Capital Outlay	9,653	15,149	(5,496)
Total Operation and Maintenance	413,668	428,079	(14,411)
Other Support Services			
Salaries- professional	-	5,965	(5,965)
Salaries- non-professional	81,201	78,626	2,575
Insurances	35,459	35,593	(134)
Fica, retirement, and other benefits	19,831	19,772	59
Purchased services	5,956	3,765	2,191
Supplies and materials	1,775	222	1,553
Capital outlay	5,000	4,498	502
Total Other Support Services	149,222	148,441	781
TOTAL SUPPORTING SERVICES	1,354,556	1,370,687	(16,131)
COMMUNITY SERVICES			
Salaries- professional	110,421	110,421	-
Insurances	35,037	35,037	-
Fica, retirement, and other benefits	30,230	29,967	263
TOTAL COMMUNITY SERVICES	175,688	175,425	263
TOTAL EXPENDITURES	3,449,354	3,451,329	(1,975)
OTHER FINANCING USES			
Transfers to other funds	118,094	118,529	(435)
Transfers to other governmental units	363,135	369,873	(6,738)
Payments on loans	9,129	13,431	(4,302)
TOTAL OTHER FINANCING USES	490,358	501,833	(11,475)
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 3,939,712</u>	<u>\$ 3,953,162</u>	<u>\$ (13,450)</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS- STUDENT ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	DUE TO (FROM) STUDENT ACTIVITIES & OTHER ORGANIZATIONS June 30, 2005	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT ACTIVITIES & OTHER ORGANIZATIONS June 30, 2006
Vocational Education				
ABC fieldtrip fund	\$ 1,261	\$ 2,518	\$ 2,217	\$ 1,562
Ast car	27	956	386	597
Ast fieldtrip	-	-	-	-
Auto service tools	227	960	960	227
Baja	-	4,186	2,115	2,071
Bank int/serv charges	2,428	609	-	3,037
BPA	34	-	34	-
Coke/ASV	43,518	57,023	61,993	38,548
DECA	4,112	17,708	19,199	2,621
Earth center	206	340	69	477
Electric cars	199	264	284	179
FCCLA	1,563	1,497	2,530	530
FFA	5,938	26,173	19,013	13,098
FFA scholarships	1,215	655	-	1,870
Flower fund	-	585	417	168
Food trips	555	56	213	398
General ed flowthrough	-	-	-	-
HOSA	2,926	7,087	9,707	306
Miscellaneous	-	5,793	5,793	-
NTHS	-	756	542	214
Peak	6,810	6,689	7,721	5,778
Preschool expo books	42	-	42	-
Safety glasses	195	26	-	221
Science symposium	1,000	1,000	2,000	-
Skills USA	-	1,517	1,497	20
TOTAL AGENCY FUND	\$ 72,256	\$ 136,398	\$ 136,732	\$ 71,922

SANIALC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF BONDED DEBT
FOR THE YEAR ENDED JUNE 30, 2006

1998 DURANT RESOLUTION PACKAGE BONDS

\$347,037 Durant Bond issued November 24, 1998:

<u>PAYMENT DATE</u> <u>MAY 15</u>	<u>PRINCIPAL</u> <u>REQUIREMENT</u>	<u>INTEREST</u> <u>RATE</u>	<u>INTEREST</u> <u>REQUIREMENT</u>	<u>TOTAL</u>
2007	\$ 17,594	4.761353%	\$ 6,772	\$ 24,366
2008	18,436	4.761353%	5,935	24,371
2009	81,990	4.761353%	33,013	115,003
2010	20,232	4.761353%	4,137	24,369
2011	21,196	4.761353%	3,174	24,370
2012	22,204	4.761353%	2,165	24,369
2013	23,261	4.761353%	1,108	24,369
TOTAL	\$ 204,913		\$ 56,304	\$ 261,217

2001 GENERAL OBLIGATION SCHOOL BUILDING & SITE BONDS

\$1,655,000 Maple Valley Bond issued February 20, 2001

<u>DUE DATE</u>	<u>PRINCIPAL</u> <u>REQUIREMENT</u>	<u>INTEREST</u> <u>RATE</u>	<u>INTEREST</u> <u>PAYABLE</u>	<u>TOTAL</u>
11/01/06	-		\$ 18,900	\$ 18,900
05/01/07	\$ 170,000	4.000%	18,900	188,900
11/01/07	-		15,500	15,500
05/01/08	180,000	4.000%	15,500	195,500
11/01/08	-		11,900	11,900
05/01/09	190,000	4.000%	11,900	201,900
11/01/09	-		8,100	8,100
05/01/10	200,000	4.000%	8,100	208,100
11/01/10	-		4,100	4,100
05/01/11	205,000	4.000%	4,100	209,100
TOTAL	\$ 945,000		\$ 117,000	\$ 1,062,000

SANILAC INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF BONDED DEBT (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006

2001 SCHOOL BUILDING & SITE BONDS (GENERAL OBLIGATION - LIMITED TAX)

\$673,450 QZAB Bond issued July 12, 2001

PAYMENT DATE JULY 12	PRINCIPAL AMOUNT	INTEREST RATE
2006	\$ 51,803	0.00%
2007	51,803	0.00%
2008	51,803	0.00%
2009	51,803	0.00%
2010	51,803	0.00%
2011	51,803	0.00%
2012	51,803	0.00%
2013	51,803	0.00%
2014	51,814	0.00%
TOTAL	\$ 466,238	

2005 GENERAL OBLIGATION SCHOOL BUILDING & SITE BONDS

\$425,000 Bond issued on March 8, 2005

DUE DATE	PRINCIPAL REQUIREMENT	INTEREST RATE	NOVEMBER INTEREST	MAY INTEREST	TOTAL
2006-2007	\$ 25,000	2.90%	\$ 7,585	\$ 7,585	\$ 40,170
2007-2008	25,000	3.05%	7,223	7,222	39,445
2008-2009	25,000	3.15%	6,841	6,841	38,682
2009-2010	25,000	3.35%	6,447	6,448	37,895
2010-2011	30,000	3.50%	6,029	6,029	42,058
2011-2012	30,000	3.65%	5,504	5,504	41,008
2012-2013	30,000	3.75%	4,956	4,956	39,912
2013-2014	30,000	3.85%	4,394	4,394	38,788
2014-2015	35,000	3.95%	3,816	3,816	42,632
2015-2016	35,000	4.05%	3,125	3,125	41,250
2016-2017	35,000	4.15%	2,416	2,416	39,832
2017-2018	40,000	4.20%	1,690	1,690	43,380
2018-2019	40,000	4.25%	850	850	41,700
TOTAL	\$ 405,000		\$ 60,876	\$ 60,876	\$ 526,752

SANILAC INTERMEDIATE SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED
BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2006

CONTENTS

Page Number

*Report On Internal Control Over Financial Reporting and On Compliance
and Other Matters Based On An Audit of Financial Statements Performed
In Accordance With Government Auditing Standards*

1

*Report On Compliance With Requirements Applicable To Each Major
Program and Internal Control Over Compliance In Accordance With
OMB Circular A-133.*

2 & 3

Schedule of Expenditures Of Federal Awards

4 - 7

Notes to Schedule of Expenditures of Federal Awards

8 - 10

Schedule of Findings and Questioned Costs

11

Schedule of Prior Audit Findings

12



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 22, 2006

To the Board of Education
Sanilac Intermediate School District
Peck, MI

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sanilac Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise Sanilac Intermediate School District's basic financial statements of the District's primary government and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Sanilac Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Sanilac Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 22, 2006

To the Board of Education
Sanilac Intermediate School District
Peck, MI

COMPLIANCE

We have audited the compliance of Sanilac Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Sanilac Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sanilac Intermediate School District's management. Our responsibility is to express an opinion on Sanilac Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tuscola Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Tuscola Intermediate School District's compliance with those requirements.

In our opinion, Sanilac Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

To the Board of Education
September 22, 2006

INTERNAL CONTROL OVER COMPLIANCE

The management of Sanilac Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sanilac Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sanilac Intermediate School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Sanilac Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

SANILAC INTERMEDIATE SCHOOL DISTRICT, PECK, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS- THROUGH GRANTOR'S NUMBER</u>	<u>AWARD AMOUNT</u>	<u>ACCRUED (DEFERRED) REVENUE 6/30/2005</u>	<u>(MEMO ONLY) PRIOR YEAR EXPENDITURES</u>	<u>CURRENT YEAR RECEIPTS</u>	<u>CURRENT YEAR EXPENDITURES</u>	<u>ACCRUED (DEFERRED) REVENUE 6/30/2006</u>
U.S. DEPARTMENT OF EDUCATION: Rural Education Achievement Program Small, Rural School Achievement	84.358	S358A032275	\$ 13,897	-	-	\$ 13,897	\$ 13,897	-
U.S. DEPARTMENT OF EDUCATION: Passed through Michigan Dept. of Education: Adult Education - State Grant Program Basic Grant Programs ABE - State Leadership Project (05-06)	84.002	061150630005 061130611116	1,500 22,000 23,500	- - -	- - -	1,500 22,000 23,500	1,500 22,000 23,500	- - -
Special Education - Grants to States IDEA Flowthrough (05-06) IDEA Flowthrough (04-05) State Initiated - EOSD (05-06) Transition Services (05-06) Transition Services (04-05)	84.027 *	060450-0506 050450-0405 060480-EOSD 060490-TS 050490-TS	1,493,686 1,462,230 50,000 60,000 60,000 3,125,916	- \$ 92,884 - - 4,000 96,884	- \$ 1,274,884 - - 60,000 1,334,884	819,000 280,230 50,000 60,000 4,000 1,213,230	1,351,953 187,346 50,000 60,000 - 1,649,299	\$ 532,953 - - - - 532,953
Vocational Education - Basic Grants to States Secondary Regional Allocation (05-06)	84.048	063520-601211	420,912	-	-	420,912	420,912	-
Special Education - Preschool Grants Preschool Incentive (05-06)	84.173 *	060460-0506	54,555	-	-	54,555	54,555	-
Special Education - Grants for Infants & Families with Disabilities Formula Grant (05-06) Formula Grant (04-05)	84.181	061340190 051340190	84,454 87,454 171,908	- 3,687 3,687	- 62,187 62,187	62,500 28,954 91,454	68,583 25,267 93,850	6,083 - 6,083
Innovative Education Program Strategies Title V (05-06)	84.298	050250-0506	1,059	-	-	1,059	1,059	-
Improving Teacher Quality Title IIA (05-06) Title IIA (04-05)	84.367	050520-0506 040520-0304	425 421 846	- (400) (400)	- 21 21	425 - 425	425 400 825	- - -

* = cluster

SANILAC INTERMEDIATE SCHOOL DISTRICT, PECK, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2006
U.S. DEPARTMENT OF EDUCATION (CONTINUED): Passed through the Huron Intermediate School District:								
Tech Prep	84.243	6014-11	\$ 26,505	-	-	\$ 26,505	\$ 26,505	-
School-Land Security	84.184	None	1,948	-	-	1,948	1,948	-
TOTAL U.S. DEPARTMENT OF EDUCATION			3,827,149	\$ 100,171	\$ 1,397,092	1,833,588	2,272,453	\$ 539,036
U.S. EMPLOYMENT & TRAINING ADMINISTRATION Passed through Thumb Area - Michigan Works: MI Works Staffing Grant								
Employment Service/Wagner Peyser	17.207	N/A	66,601	-	-	36,107	66,601	30,494
WIA Adult	17.258	N/A	32,195	-	-	15,578	32,195	\$ 16,617
WIA Youth Activities	17.259	N/A	50,000	\$ 37,646	\$ 47,646	37,646	-	-
WIA Youth Staffing Grant	17.259	N/A	52,107	16,186	52,107	16,186	-	-
WIA Dislocated Workers	17.260	N/A	12,565	-	-	12,565	12,565	-
WIA Youth - Summer Career Camp	17.259	N/A	35,494	-	-	35,494	35,494	-
WIA Youth - Staffing Grant	17.259	N/A	6,861	-	-	6,861	6,861	-
TOTAL U.S. EMPLOYMENT & TRAINING ADMINISTRATION			255,823	53,832	99,753	160,437	153,716	47,111
U.S. DEPARTMENT OF AGRICULTURE Passed through Thumb Area - Michigan Works State Administrative Matching Grants for Food Stamp Program								
	10.561	N/A	68	-	-	68	68	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through Thumb Area - Michigan Works Temporary Assistance for Needy Families								
	93.558	N/A	51,466	-	-	51,466	51,466	-
Passed through Michigan Department of Community Health Medicaid Administrative Outreach (05-06) School Based Services - Transportation								
	93.778	N/A	49,548	-	-	49,548	49,548	-
		N/A	8,490	-	-	8,490	8,490	-
			58,038	-	-	58,038	58,038	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			109,504	-	-	109,504	109,504	-

SANILAC INTERMEDIATE SCHOOL DISTRICT, PECK, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2006
U.S. DEPARTMENT OF HOMELAND SECURITY: Passed through Michigan State Police Homeland Security	97.004	N/A	\$ 2,567	-	-	\$ 2,567	\$ 2,567	-
			\$ 4,209,008	\$ 154,003	\$ 1,496,845	\$ 2,120,061	\$ 2,552,205	\$ 586,147
TOTAL FEDERAL AWARDS								

SANILAC INTERMEDIATE SCHOOL DISTRICT, PECK, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<u>PASS-THROUGH GRANTEE</u>	<u>CFDA NUMBER</u>	<u>STATE PASS-THROUGH NUMBER</u>	<u>CURRENT YEAR PASS-THROUGH</u>
<u>IDEA FLOWTHROUGH (05/06)</u>	84.027	060450/0506	
Brown City			\$ 46,000
Croswell Lexington			80,485
Deckerville			30,800
Marlette			86,400
Sandusky			60,000
			<u>\$ 303,685</u>
<u>IDEA FLOWTHROUGH (04/05)</u>	84.027	050450/0405	
Carsonville-Port Sanilac			\$ 31,200
Croswell Lexington			54,077
Peck			28,800
			<u>\$ 114,077</u>
<u>PERKINS</u>	84.048	063520/601211	
Huron Intermediate			\$ 63,137
Lapeer Intermediate			147,319
Tuscola Intermediate			122,064
			<u>\$ 332,520</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sanilac Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. IDEA 94-142, CFDA #84.027 and Preschool Incentive, CFDA #84.173, were audited as major programs and represent 67% of expenditures.
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.
4. Management has utilized the R7120, Grant Section Auditors' Report, in preparing the schedule of expenditures of federal awards.
5. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

NOTE 3 – RECONCILIATION OF FEDERAL REVENUE

The current year expenditures on the Schedule of Expenditures of Federal Awards agrees to the federal revenue reported in the financial statements, as follows:

Federal revenue per financial statements	\$2,304,752
Plus: Revenues recorded as deferred revenue- Doesn't meet accrual criteria:	
IDEA Grant	<u>247,453</u>
Reconciled financial statement balance	<u>\$2,552,205</u>
Federal expenditures per Schedule of Federal Awards	<u>\$2,552,205</u>

SANILAC INTERMEDIATE SCHOOL DISTRICT, CARO, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.027 & 84.173 Cluster

Name of Federal Program or Cluster
IDEA & Preschool Incentive

Dollar threshold used to distinguish between type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

SANILAC INTERMEDIATE SCHOOL DISTRICT, CARO, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

NONE

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

September 22, 2006

To the Board of Education
Sanilac Intermediate School District
Peck, MI 48466

In planning and performing our audit of the financial statements of Sanilac Intermediate School District for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated September 22, 2006, on the financial statements of Sanilac Intermediate School District.

Increase Fidelity Insurance Coverage

We recommend that the District review their fidelity insurance and consider increasing the insurance coverage. The District currently has \$15,000 of blanket coverage on all employees and \$35,000 coverage on certain key employees. Given the size of the District's operations and the amount of money that are frequently involved in individual transactions, a higher level of insurance protection should be considered. We believe that this type of protection is a relatively inexpensive way of safeguarding the District's assets from theft or misappropriation.

Federal Fund Requests

As part of our compliance audit of the various federal projects, we reviewed the District's cash management procedures to determine that the District is requesting its federal funds in a timely manner. Federal regulations prohibit requesting funds more than 3 days in advance of when the money will be spent. We noted no instances where money was requested too quickly; however, we would like to point out that at June 30, 2006, the District was owed in excess of \$500,000 in federal funds indicating that the District is not requesting funds quickly enough. If federal funds are not received prior to August 31, the revenue must be deferred. We recommend the District request its funds in a more timely fashion to improve its cash flow and also enhance its investment income.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letter to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.
- Adopting a budget after June 30th.

The Department is currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. While there may be technical violations of the act, we believe the district's current budget procedures are adequate.

Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies, "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exist.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various schools district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Sanilac Intermediate School District, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**